

Message Text

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ACTION EUR-25

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PA-04 L-03 H-03 AGR-20 CIAE-00 FRB-02 INR-10 NSAE-00

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TAGS: EFIN, PINT, IT

SUBJECT: ITALIAN GOVERNMENT CRISIS - ECONOMIC STABILIZATION PROGRAM

REF: A. ROME 8293

B. ROME 7997

C. ROME 7977

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1. SUMMARY. ON JUNE 18 RUMOR GOVERNMENT MET SOME SEVEN

HOURS IN EFFORT TO HEAL RIFT IN CENTER-LEFT COALITION AND FORMULATE ECONOMIC STABILIZATION PROGRAM WHICH WILL MEET DOMESTIC AND INTERNATIONAL NEEDS OF COUNTRY. AGREEMENT IN PRINCIPLE WAS APPARENTLY REACHED ON FISCAL PACKAGE WHICH WILL RESULT IN SOME 3000 BILLION LIRE OF ADDITIONAL REVENUES. SOCIALISTS AND CHRISTIAN DEMOCRATS, HOWEVER, CONTINUE TO DISAGREE ON SELECTIVE EASING OF CREDIT POLICY AND COORDINATING IMPLEMENTATION OF FISCAL MEASURES WITH ADMINISTRATION OF CREDIT POLICY. THERE WAS ALSO POLITICAL CONTENTION OVER SUBJECT OF GOVERNMENT RELATIONS WITH PCI WHICH WAS RAISED BY SOCIALISTS DURING COURSE OF MEETING. GOVERNMENT SUMMIT MEETING OF HEADS OF COALITION PARTIES AND FINANCE MINISTERS WILL CONTINUE THIS AFTERNOON JUNE 19 TO IRON OUT THESE QUESTIONS.

2. ON JUNE 18 PRIME MINISTER RUMOR MET WITH HEADS OF FOUR POLITICAL PARTIES COMPRISING CENTER-LEFT COALITION (CHRISTIAN DEMOCRATS, SOCIALISTS, SOCIAL DEMOCRATS, REPUBLICANS) AND THREE FINANCE MINISTERS (COLOMBO OF TREASURY, GIOLITTI OF BUDGET AND PLANNING, AND TANASSI OF FINANCE). MEETING WAS CALLED BY RUMOR IN EFFORT TO REACH VIABLE COMPROMISE ON ECONOMIC POLICY AND OVERCOME PRESENT POLITICAL CRISIS (REFTEL A). DURING MEETING PRIME MINISTER REVIEWED PACKAGE OF FISCAL MEASURES ON WHICH GENERAL AGREEMENT APPEARS TO HAVE BEEN REACHED. ACCORDING TO FINANCIAL PRESS, FISCAL PACKAGE CONSISTED OF FOLLOWING:

- A) 40 LIRE INCREASE IN TAX ON GASOLINE;
- B) INCREASE OF CIRCULATION TAX ON AUTOMOBILES OF 10,000 TO 30,000 LIRE, DEPENDING ON DISPLACEMENT OF ENGINE;
- C) AN ADDITIONAL 10,000 LIRE TAX PAID ANNUALLY FOR USE OF TELEVISION;
- D) INCREASE OF REGISTRATION TAX ON REAL ESTATE SALES AND ON TAX ON CAPITAL GAINS REALIZED FROM REAL ESTATE;
- E) AN INCREASE FROM 10 TO 20 PERCENT IN ADVANCE PAYMENT OF INCOME TAX ON SELF-EMPLOYED WORKERS (PROFESSIONALS, ARTISTS, ARTISANS, ETC.) AND ABOLITION OF EXEMPTION FROM IVA ON PROFESSIONAL SERVICES WHICH DO NOT EXCEED A YEARLY VOLUME OF 5 MILLION LIRE;
- F) A 10 PERCENT INCREASE ON INCOME TAX OF THOSE SALARIED EMPLOYEES WHO EARN MORE THAN 8 MILLION LIRE A YEAR; LIMITED OFFICIAL USE

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- G) ELIMINATION OF PERSONAL INCOME TAX DEDUCTION FOR THOSE EARNING MORE THAN 4 MILLION LIRE AND EXTENSION OF ELIGIBILITY FOR TAX EXEMPTION TO LARGER NUMBER OF LOW-INCOME EARNERS BY RAISING QUALIFYING INCOME LEVEL TO 1,200,000 LIRE PER YEAR.
- H) PRESENT 6 PERCENT VALUE ADDED TAX ON WIDELY CONSUMED ITEMS WILL REMAIN IN EFFECT, WHILE TAX RATE FOR ALL OTHER ITEMS PREVIOUSLY TAXED AT 6 PERCENT WILL BE INCREASED TO 16

PERCENT. HIGHER RATES OF 12 PERCENT AND 18 PERCENT WILL BE INCREASED TO 18 AND 24 PERCENT RESPECTIVELY;
I) TAX INCREASE OF 40 LIRE PER LITER OF METHANE GAS FOR DOMESTIC USE;
J) AN INCREASE IN PUBLIC UTILITY RATES ACCORDING TO LEVEL OF CONSUMPTION, WHICH SHOULD YEALD 700 BILLION LIRE.

3. DURING JUNE 18 SUMMIT, MEMBERS OF GOVERNMENT COALITION WERE STILL UNABLE TO AGREE ON CREDIT POLICY. DIFFERENCES BETWEEN CHRISTIAN DEMOCRATS AND SOCIALISTS OVER SELECTIVE EASING OF CREDIT RESTRAINTS AND RELATION BETWEEN ADMINISTRATION OF CREDIT POLICY AND NEW FISCAL MEASURES HAS CONTINUED TO BE ONE OF MAJOR SOURCES OF CONTENTION DURING GOVERNMENT CRISIS (SEE REFTTEL C). BOTH TREAS MIN COLOMBO (CHRISTIAN DEMOCRAT) AND BUDGET MINISTER GIOLITTI (SOCIALIST) RE- STATED THEIR CONTRASTING POSITIONS ON EFFECT OF PRESENT RESTRICTIVE CREDIT POLICY AND TYPE OF POLICY WHICH SHOULD BE PURSUED IN FUTURE. THERE WAS, HOWEVER, EVIDENCE OF WILL TO COMPROMISE IN DISCUSSIONS CONCERNING TURNING ADMINISTRATION OF SELECTIVE CREDIT POLICY OVER TO MINISTERIAL COMMITTEE WHICH WOULD EMPLOY POLITICAL AND SOCIAL CRITERIA.

4. DURING HIS INTERVENTION, TREAS MIN COLOMBO NOTED THAT ITALY'S MAIN TASK VIS A VIS ITS FOREIGN PARTNERS IS NECESSITY TO DEMONSTRATE THAT IT IS NOT A BOTTOMLESS WELL BUT THAT IT CAN CONTINUE TO ASSUME FOREIGN LOANS WHILE AT THE SAME TIME UNDERTAKING A DOMESTIC STABILIZATION PROGRAM TO BALANCE ITS FOREIGN ACCOUNTS. HE ALSO POINTED OUT THAT SUCCESS IN REDUCING INTERNAL PRICES AND PUBLIC DEFICIT WOULD BE INSTRUMENTAL NOT ONLY IN REDUCING BALANCE OF PAYMENTS DEFICIT BUT IN RETURNING TO LEVEL OF MONETARY EXPANSION OF 22,400 BILLION LIRE WHICH HAD BEEN AGREED TO WITH INTERNATIONAL MONETARY FUND. COLOMBO'S LIMITED OFFICIAL USE

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STATEMENT APPARENTLY IS FACIT ADMISSION THAT GOI HAS EXCEEDED CREDIT CEILING AND IS THEREFORE INELIGIBLE FOR DRAWINGS BEYOND FIRST CREDIT TRANCHE.

5. MEANWHILE, PRESS REPORTS INDICATE AND DC AND PSDI SOURCES HAVE CONFIRMED TO US THAT SOCIALISTS BROACHED SUBJECT OF GOVERNMENT RELATIONS WITH PCI AT JUNE 18 CENTER- LEFT SUMMIT MEETINGS. ACCORDING TO OUR SOURCES, PSI PROPOSED THAT A PROCESS OF SYSTEMATIC CONSULTATION WITH PCI ON MAJOR POLITICAL AND ECONOMIC ISSUES BE INSTI- TUTIONALIZED. BOTH DC AND PSDI ARE FIRMLY OPPOSED TO THIS AND SO INDICATED AT JUNE 18 MEETINGS. OUR SOURCES INDICATE THAT AN ACCORD WAS REACHED ON ALL MAJOR ECONOMIC MATTERS AT ISSUE AND THAT IF SOCIALISTS DO NOT INSIST ON THEIR POLITICAL DEMANDS FOR A LARGER PCI ROLE, A CRISIS

CAN BE AVOIDED. OTHERWISE, OUR SOURCES PREDICT THAT DC
AND SOCIAL DEMOCRATS WILL FORMALLY REJECT PSI DEMANDS AT
CENTER-LEFT SUMMIT MEETING SCHEDULED FOR LATE AFTERNOON
JUNE 19 AND A GOVERNMENT CRISIS WILL BE UNAVOIDABLE. VOLPE

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